

S. Srinivasan v. Commissioner of Income-tax, Madras

Civil Appeal No. 556 of 1965

[1967] 1 SCR 727 | 1966-10-04

Historical clubbing provision: interest credited on the wife's and minor sons' accumulated partnership profits arose indirectly from their partnership capacity and was includible in the assessee's income.

Indian Income-tax Act, 1922: section 16(3)(a)(i) and (ii)

3-judge bench | J. C. Shah, J. | V. Ramaswami, J. | V. Bhargava, J.

Assessment years: 1957-58

Accumulated profits, not every loan or deposit

The result turned on profits earned through the wife and minors' partnership position remaining with the firm without a separate deposit or loan arrangement. It is not a universal rule for all interest paid to relatives or all capital introduced into a firm.

01 FACTS OF THE CASE

The assessee, his wife and an unrelated person were partners; his two minor sons were admitted to the firm's benefits. The partnership deed specified profit shares and permitted a partner to advance a management-expense loan carrying interest. The wife's and minors' profits accumulated with the firm for years without interest. From the previous year relevant to AY 1957-58, the firm credited 9% interest on the opening accumulated balances. The department included both current profits and that interest in the assessee's income. The Tribunal excluded interest on capital supplied by the minors' grandparents but sustained inclusion of interest attributable to accumulated profits.

Source: [Partnership, accumulations and procedural history: SCR pp.728-729 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The constitutional objection to section 16(3)(a)(i) and (ii) was not pressed in view of Balaji. On the live issue, the Court refused to recharacterise the accumulated profits as deposits or loans. The wife and minors had earned those sums through partnership or admission to its benefits and left them with the firm without the type of specific arrangement expected from an outside depositor or lender. The later decision to credit interest did not change the funds' character. Because the firm used those accumulated profits by reason of the family members' partnership capacity, the interest arose at least indirectly from that capacity. The Court distinguished authorities concerning an actual deposit, loan or separately supplied capital and did not state that every payment of interest to a minor automatically falls within the provision.

Source: [Accumulated-profit nexus and deposit/loan distinctions: SCR pp.729-731 / PDF pp.3-5](#)

03 JUDICIAL DECISION

The Court affirmed the High Court's answers against the assessee. Interest on the wife's and minors' accumulated partnership profits was includible under section 16(3)(a)(i) and (ii). The appeal was dismissed with costs.

Source: [Decision and dismissal: SCR p.731 / PDF p.5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue. The disputed interest on accumulated profits remained included in the assessee's income and his appeal was dismissed with costs. The judgment preserves factual distinctions for genuine deposits, loans and capital contributions.

Source: [Qualified outcome: SCR pp.730-731 / PDF pp.4-5](#)

05 AKHB REVIEW POINT

AKHB analysis: classify the underlying balance before analysing interest. Preserve partnership deeds, profit-allocation entries, withdrawal rights and any later loan or deposit agreement. The source and capacity in which funds remained with the firm can be decisive. For a current matter, separately verify the later clubbing statute, the family member's legal capacity and subsequent treatment of this decision.

Source: [AKHB analysis based on the character-of-funds distinction](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Full 5-page SCR report read and visually reviewed. The editorial headnote is on PDF p.1; the unnumbered judicial text begins on PDF p.2/SCR p.728 and ends on PDF p.5/SCR p.731. No neighbouring judgment is included.

Open cited source rendition

Exact source bytes and 5-page count match catalogue asset 1967_1_727_731.

The report identifies Civil Appeal No.556 of 1965, decided 4 October 1966 by J.C. Shah, V. Ramaswami and V. Bhargava JJ.; Bhargava J. delivered the judgment.

PDF p.1 is an editorial headnote; judicial reasons were taken from PDF pp.2-5/SCR pp.728-731.

The constitutional question was not pressed in the Supreme Court in view of Balaji; the substantive holding concerns interest on accumulated profits.

STATUTORY SCOPE

This ruling construes section 16(3)(a)(i) and (ii) of the Indian Income-tax Act, 1922 for AY 1957-58. It does not certify treatment under later clubbing provisions or a current partnership arrangement.

LATER TREATMENT

Source checked 2026-10-10. Later treatment and present statutory applicability have not been comprehensively checked; no current citator clearance is represented.

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